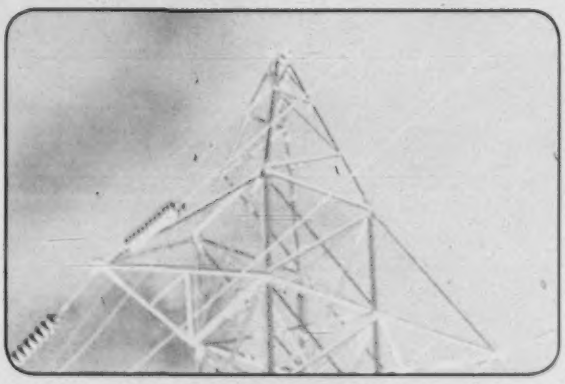
New Brunswick System Operator

NBSO
ERNB

Annual Report

2005-06



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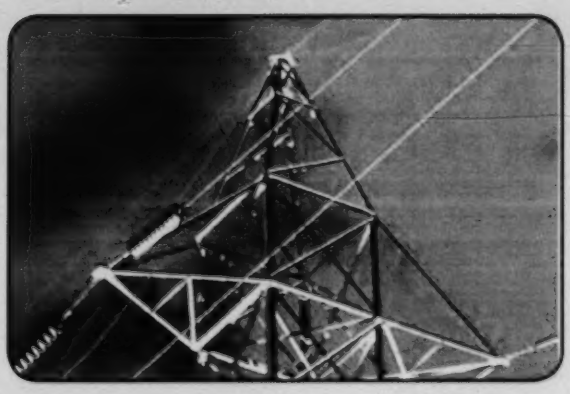

New Brunswick Electricity Market Facts

Transmission Lines	6723 km	
Number of Interconnections	6	
Capacity	2000 MW	
Installed Generation Capacity	4302 MW	
NB Generation Capacity Mix	Thermal	2815 MW
	Hydro	893 MW
	Nuclear	594 MW
Peak Demand		
2005-06	2807 MW	
2004-05	3154 MW	
Total Energy Received	20,296 GWh	
Less: Transmission Losses	429 GWh	
Energy Transmitted	19,867 GWh	
Value of Electricity Transacted	$1.2 billion (est)	

Who We Are

NBSO is a not-for-profit, independent corporation whose primary responsibilities are to ensure the security and reliability of the electricity system and to facilitate the development and operation of a competitive electricity market.

About the NBSO

About the NBSO
- Corporate Profile
- NBSO Organization Chart
- Board Members
- President and CEO
- Executive Team
- Annual Reports
- FAQs
- Careers

Annual Reports

The NBSO Annual Report provides a year in review for the corporation.

2009-2010
2008-2009
2007-2008
2006-2007
2005-2006
2004-2005

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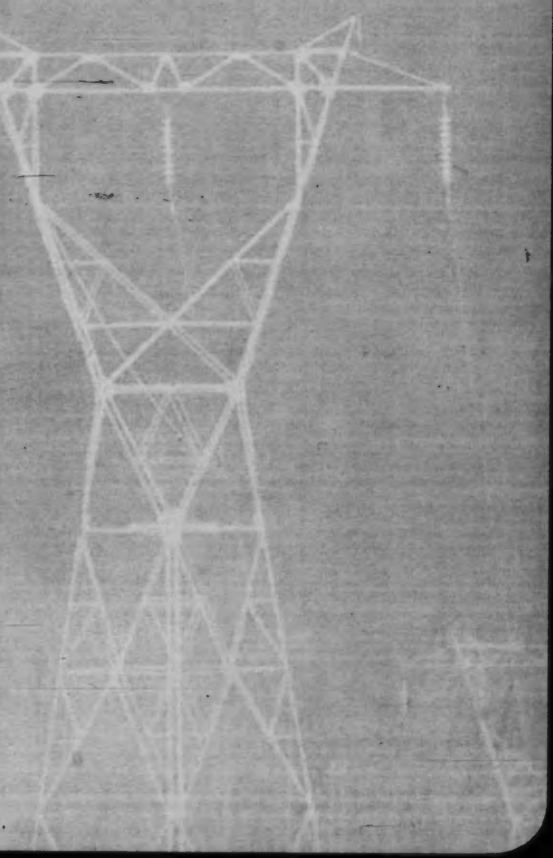

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- International Power Line Project (2nd Tie)
- Market Enhancements

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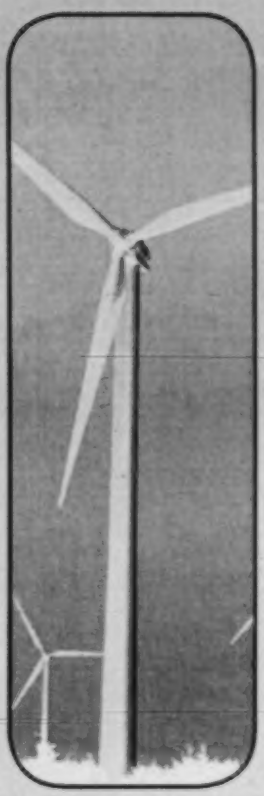

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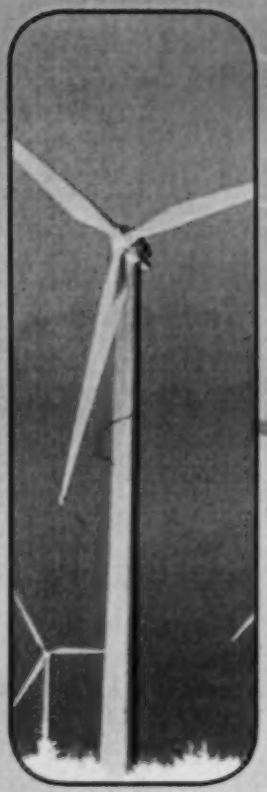


Message from the Chairman

The past year marked the 'end of the beginning" for the New Brunswick System Operator, as the company completed its start-up activities, fine tuned its operations and sharpened its focus on the key strategic issues which will shape the future of the electricity sector in the province and the region.

The NBSO has designed a comprehensive governance system, and has implemented that system through its Board Committees; specifically the Audit Committee and the Human Resources and Governance Committee. The establishment of this governance system, coupled with the implementation of a structured planning process and the adoption of the company's first strategic plan complete the company's start-up activities.

The company's main operational priority is to direct the operations of the provincial high voltage electricity grid to maintain a reliable supply of electricity to province's industries and consumers. To deliver on this objective, the NBSO works closely with a variety of firms who produce and market electricity in the Maritimes and the eastern United States. Over the past year, the reliability of the grid has consistently met or surpassed all the relevant standards imposed by the NBSO, and by international standards organizations.

The NBSO is also charged with developing and administering market rules which facilitate competition in the electricity market in the province. Competitive activity has been very limited over the past year, and there are substantial regulatory, legal and structural issues to be resolved before full competition is working in the province. However, the NBSO believes that some of the benefits of full competition can be achieved now. To that end, the company has launched a pro-active effort to identify and implement achievable changes to market rules and technology which will gradually increase supply options available in the province.

NBSO is also responsible to develop long term plans for the province's integrated electricity system. Improved access to natural gas, cost effective wind power and new tidal power technologies all represent exciting new opportunities for our region. Over the past year, the NBSO has enjoyed growing support from industry experts in planning for the integration of these technologies into the regional electricity system. NBSO has already completed studies on 1000 MW of wind power generation proposals, and with the first 200 MW of generation now committed in New Brunswick, the region is taking important steps to securing our electricity future.

The NBSO Board is confident that the stage is set for sustained progress in the development of the market in New Brunswick and we look forward to a strong collaboration with industry, consumers, researchers and other agencies as we continue these efforts in the coming year.

Curtis I. Howe
Chairman

Message from the President and CEO

On behalf of the New Brunswick System Operator (NBSO) I am pleased to present the 2005/06 Annual Report. The fiscal year has been characterised by exceptional achievement while at the same time transitioning from the past structures of an integrated utility to the pursuit of an open and competitive market. While overcoming many start-up challenges NBSO has achieved significant operational success in its first full year of existence.

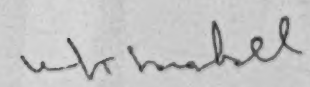
NBSO became the Reliability Coordinator for the Maritimes Area after receiving strong endorsements from the North American Electric Reliability Council (NERC) and Northeast Power Coordinating Council (NPCC) teams that conducted a "pre-operational readiness" audit of our systems and our staff. We have delivered exceptional service to the region with 100% compliance with NERC and NPCC standards for reliable operation.

On the development front, NBSO has strengthened communication with and increased market opportunities for our various stakeholders. Regular meetings were held with the Market Advisory Committee and our regulator, the New Brunswick Board of Commissioners of Public Utilities. These consultations enabled market rule changes that reduced barriers and increased opportunities for market participation. As well, our first annual information session was attended by approximately 100 stakeholders. A number of system impact studies for new wind development and industrial load projects have been completed and a preliminary assessment of large scale wind integration into the Maritimes Area was also completed.

Going forward, NBSO will continue working with stakeholders to better the market. A second transmission interconnection with ISO-NE will provide increased market access to and from the New England market in addition to enhancing reliability. Implementation of a bid-based demand response program will enhance industrial opportunities for market participation. A request for proposals for ancillary services will open competition in that area and continued wind integration studies will enable development of just and reasonable rules for accommodation of these intermittent resources.

The success of NBSO in its short life is a tribute to the effectiveness and contributions of our hard working and exceptionally competent staff. They are dedicated to provide excellent service to all stakeholders in the New Brunswick market in a fair and non discriminatory manner.

Finally, as a not-for-profit corporation, the NBSO operated within its approved budget.



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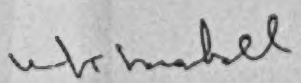

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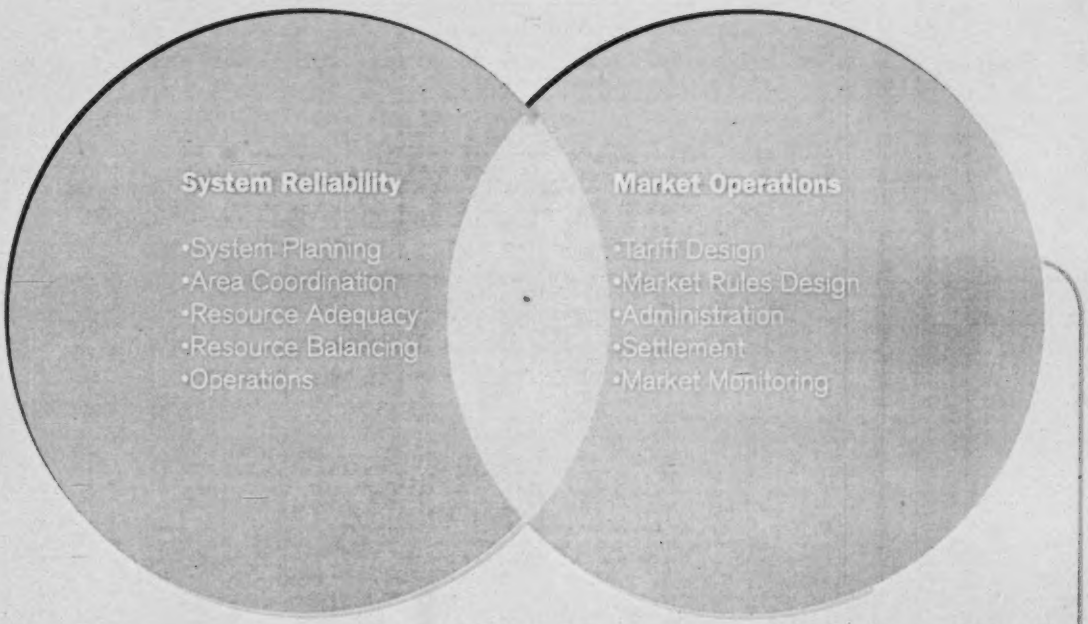
Key Functions and Core Resposibilities



System Planning

The Electricity Act states that the New Brunswick System Operator (NBSO) is "to undertake and coordinate power system development responsibilities to maintain and ensure the adequacy and reliability of the integrated electricity system for present and future needs and for the efficient operation of a competitive market." This responsibility includes conducting System Impact Studies related to new generation, transmission, and load projects. It also includes the annual publication of a 10-Year Outlook report that includes updates to the load forecast, scheduled retirements of generation resources, planned generation and transmission projects, and the assessment of resource adequacy.

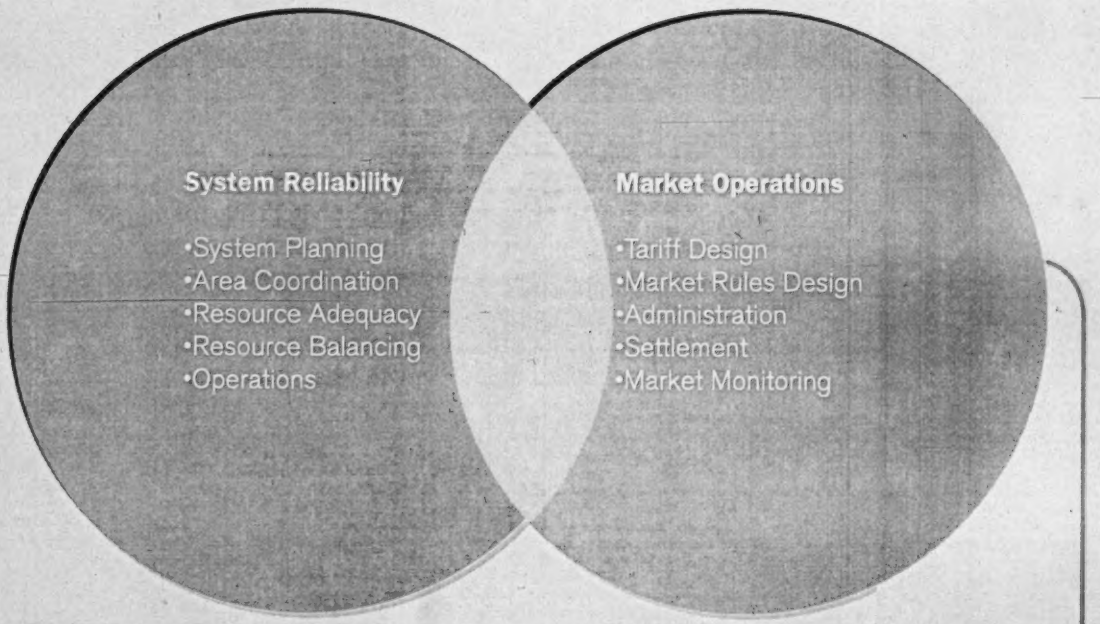
NERC sets Control Performance Standards (CPS) which NBSO has met. CPS1 provides a measure of the balancing area's performance, giving a frequency-sensitive evaluation of how well the respective area met its demand requirements. The target of 100% was consistently exceeded with an average for the fiscal year of 166%.
CPS2 is a statistical measure designed to limit unacceptably large net unscheduled power flows. The target of 90% was consistently exceeded with an average for the fiscal year of 99%.

CPS	Target (%)	Actual (%)
CPS2	90	99

Area Coordination

The Electricity Act requires NBSO to work with responsible authorities outside New Brunswick to coordinate their activities with the system operator's activities. NBSO is a member of the Northeast Power Coordinating Council (NPCC) and actively participates on various committees, task forces and working groups to conduct regular reliability assessments of conformance to NPCC criteria, guides, and procedures.

Key Functions and Core Resposibilities



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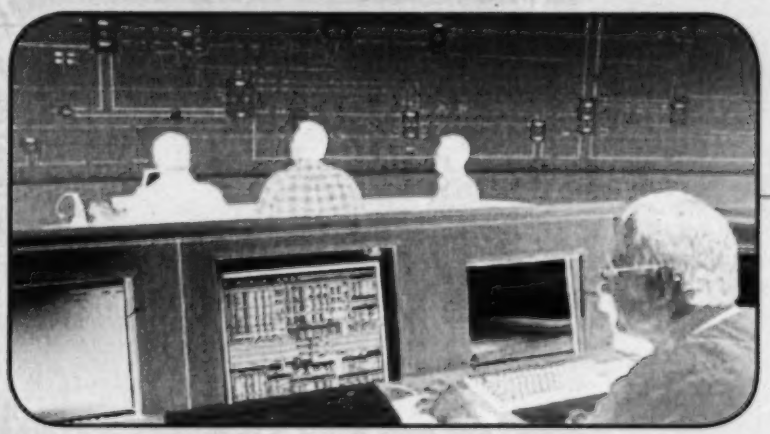

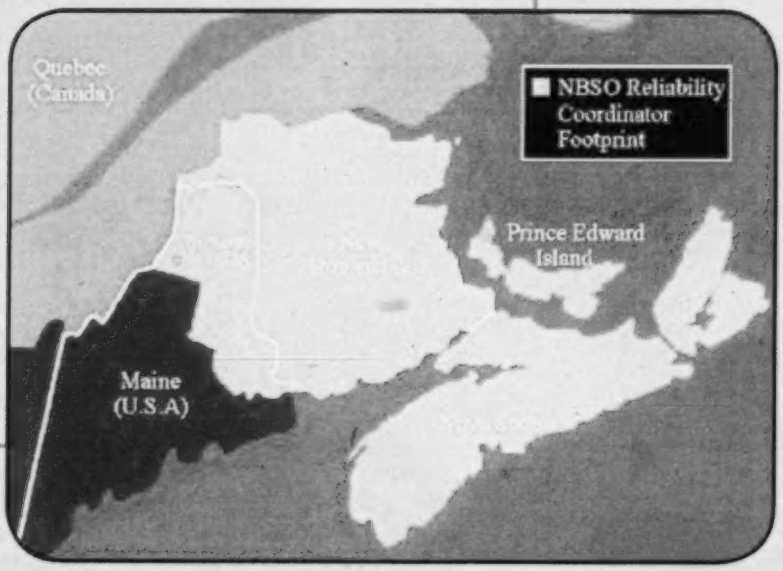

Resource Adequacy

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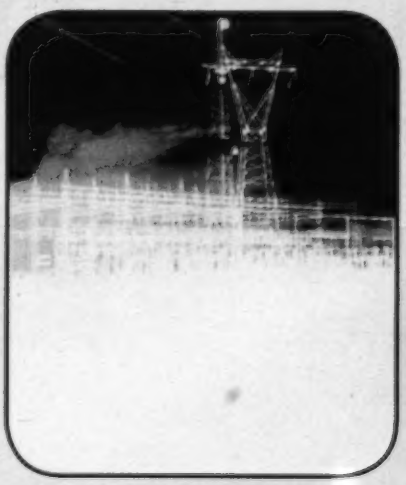

Resource Balancing

Through its generation dispatch, NBSO provides load following and regulation service to the system in order to supply in-province customer load while maintaining scheduled flows on interconnections within established limits. These limits are set out in interconnection agreements with neighbouring system operators.

Operations

NBSO directs the operation of the grid through:

- Determining system needs for energy and ancillary services;
- Coordinating outages of transmission and generation resources;
- Approving energy transactions and schedules; and
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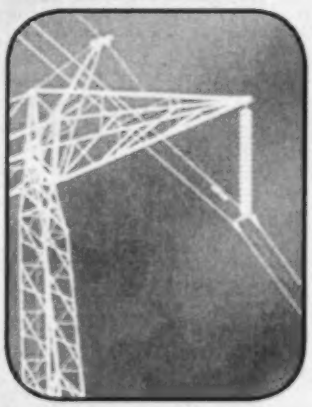
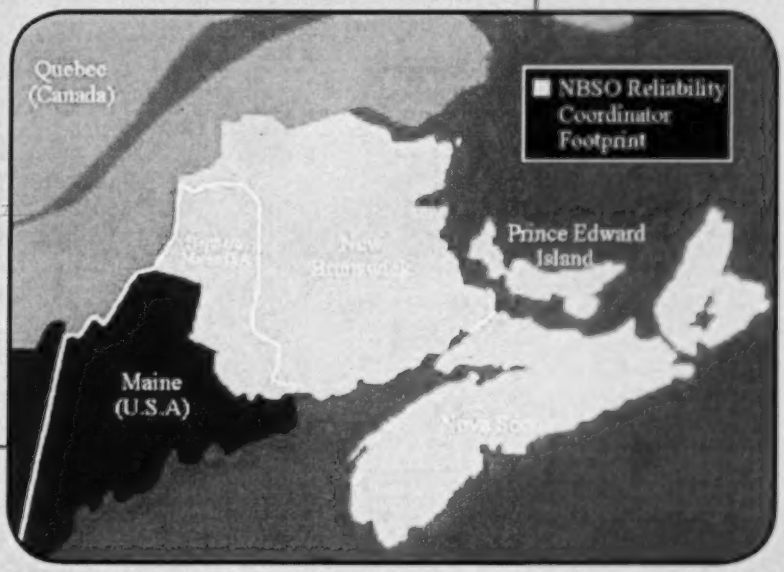


Tariff Design

NBSO is responsible for seeking revisions to the New Brunswick Open Access Transmission Tariff as required. The Tariff provides the foundation for the market in that it establishes the basic conditions and rates for use of the transmission system. All such revisions must be approved by the New Brunswick Board of Commissioners of Public Utilities and are thus subject to public scrutiny and must be found to be in the public interest. Rates must be "just and reasonable" and are designed to provide appropriate returns to the suppliers of the services and to charge users fairly.



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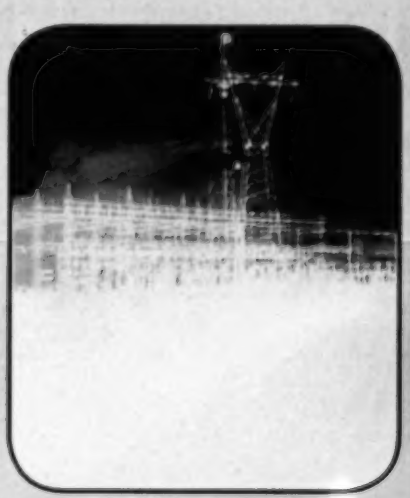

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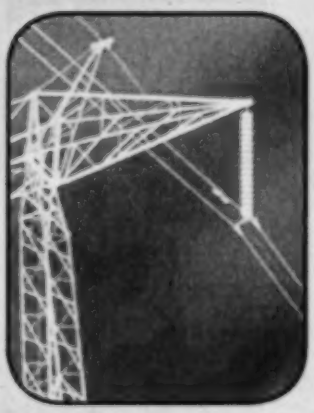

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NBSO is also responsible for updating the Market Rules to accommodate changes in reliable system planning and operations and to implement market enhancements. The Market Rules must facilitate a market while fulfilling reliability standards, two potentially opposing goals. Rule enhancements are required on an ongoing basis as new opportunities are identified for more efficient market operation, greater economic benefits, and reinforced reliability.

Administration

The Transmission Tariff and Market Rules are administered by NBSO on a non-discriminatory basis. This administration includes the processing of requests for transmission services, facility outages, and schedules for energy flows in the planning and operational timeframes. Such requests are approved only if assessments indicate that such market transactions do not compromise reliability standards.

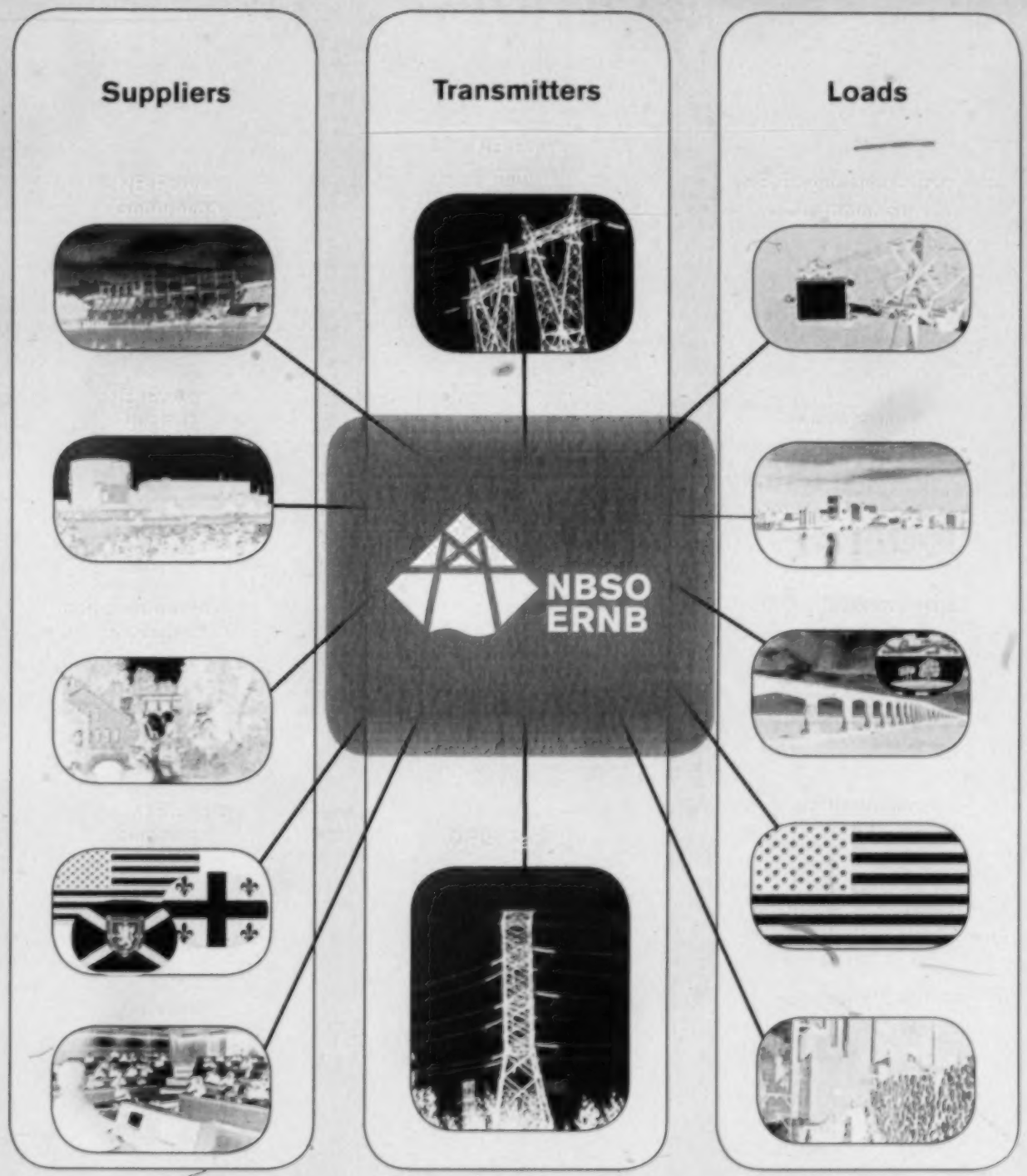
Settlement

Monthly settlement under the Transmission Tariff and the Market Rules is another important administration function whereby detailed charges and credits are calculated and settled with the various market participants. Among other tasks, the settlement function involves accounting for hourly energy flows at the hundreds of points of receipt and delivery on the NBSO controlled grid, thereby ensuring that the various market participants pay for energy taken and are credited for their energy contributions. The settlement function also ensures that market participants pay for their use of the transmission system in accordance with the regulated tariff.

Market Monitoring

The market monitoring function, performed by NBSO's Market Assessment Unit, evaluates the effectiveness of the market structure and its detailed design and also provides surveillance of compliance with the Transmission Tariff and Market Rules. The Market Assessment Unit is also required to investigate complaints regarding NBSO and transmitter conduct. The results of any such investigation are to be provided directly to the NBSO Board and a copy of the report is to be filed with the provincial regulator.

NB Electricity Market Structure



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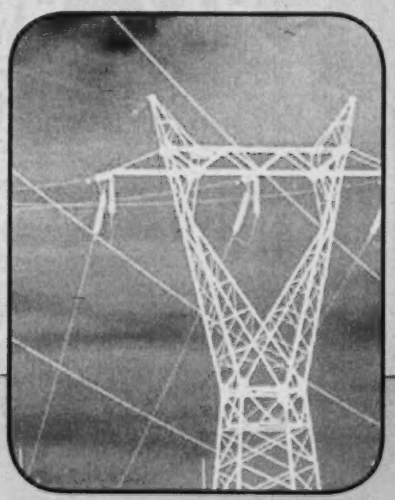

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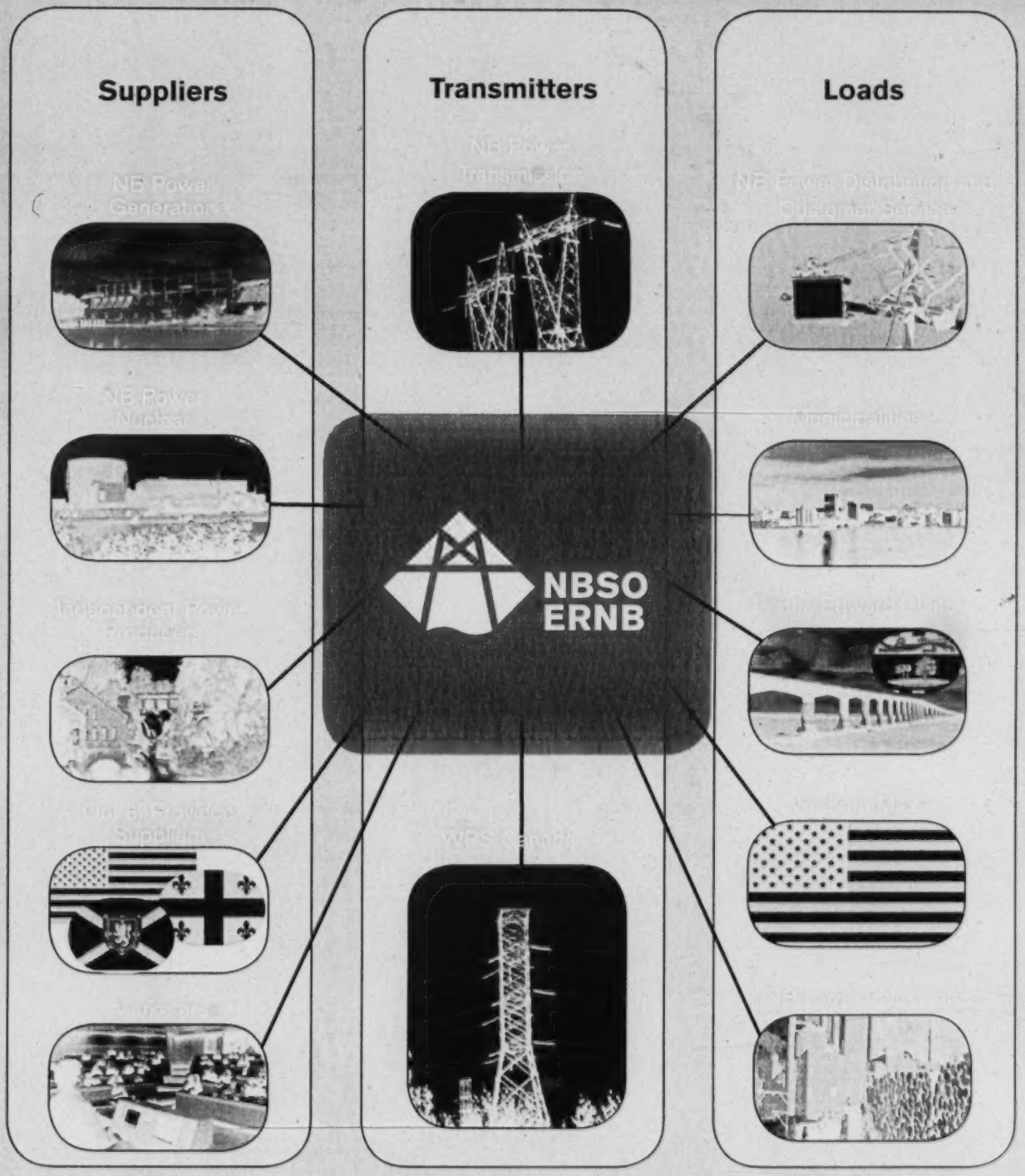
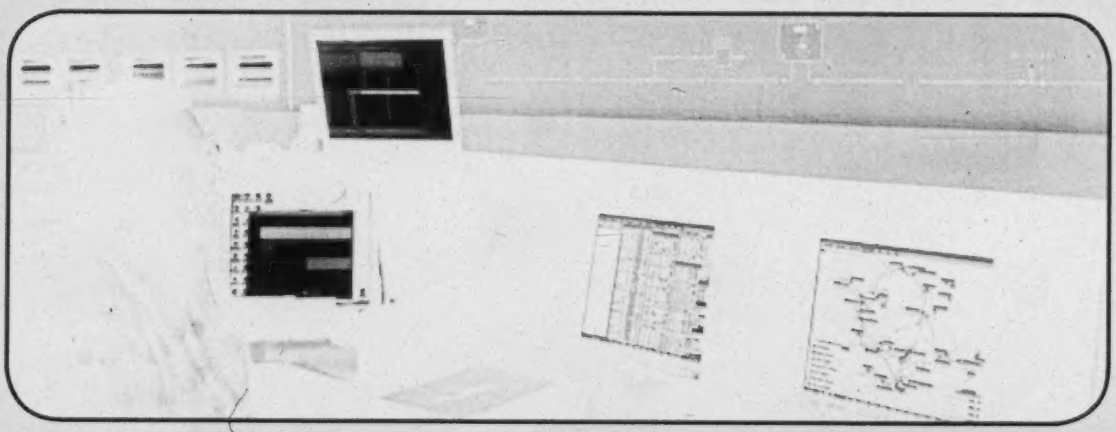


Regional Cooperation

On October 1, 2005, NBSO became the Reliability Coordinator for the Maritimes Area. North America Electric Reliability Council (NERC) defines the Reliability Coordinator as: "the entity that is the highest level of authority who is responsible for the operation of the Bulk Electric System, has the Wide Area View of the Bulk Electric System, and has the operating tools, processes and procedures, including the authority to prevent or mitigate emergency operating situations in both next-day analysis and real-time operations."



All recommendations made by the audit team were promptly addressed by NBSO, and thus the NERC Operating Committee granted its approval of NBSO as the Reliability Coordinator of the Maritimes Area.

Prior to NBSO becoming the Reliability Coordinator, a pre-operational audit was conducted by NERC in September 2005. This audit resulted in the following significant positive findings:

NBSO's management has cultivated a well-defined, operator-centric culture and organizational structure to support its operators.	✓
The evaluation team observed in its on-site interviews and review of the NBSO questionnaire responses, documentation, and tools, that reliability is paramount.	✓
NBSO's updated training program is extremely well organized and well developed.	✓
NBSO's new document management and control process is excellent as evidenced by the consistency, thoroughness, and completeness of its procedures and processes.	✓
The personnel supporting NBSO's functions are dedicated to its mission, extremely competent, and confident in their ability to perform their functions according to the defined roles and responsibilities of a reliability coordinator.	✓
NBSO as an organization and as individuals has a clear understanding of its expectations, roles, responsibilities, and authorities, as a reliability coordinator.	✓

New Brunswick is interconnected to neighbouring power systems in Québec, New England, Nova Scotia, Prince Edward Island, Northern Maine, and Eastern Maine. The operation of these interconnections is governed by interconnection agreements between NBSO and the system operators in the adjacent systems. These interconnections benefit the New Brunswick market by providing additional reliability to New Brunswick and increased opportunities for power sales and purchases, thereby decreasing the cost of power for New Brunswick customers.

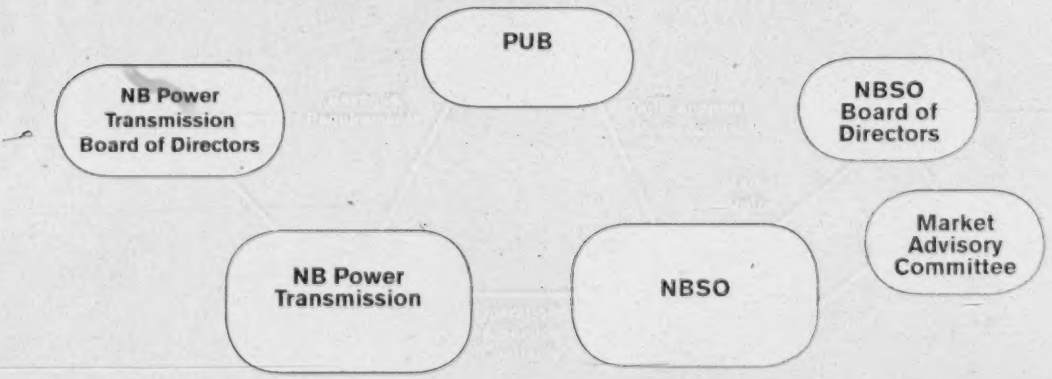
Regulatory Activities

In April 2005, the New Brunswick Board of Commissioners of Public Utilities (PUB) issued its decision respecting an application by NBSO for changes to the Open Access Transmission Tariff. All significant changes were approved by the PUB, with the exception of the complete removal of penalties associated with energy imbalance. As a result, NBSO made a separate application to the PUB respecting this matter and in February 2006, the PUB approved the NBSO proposal that energy imbalance service be priced at the Final Hourly Marginal Cost.

In addition to this formal appearance before the PUB, NBSO management met several times with Board staff to discuss NBSO progress on PUB requests, the respective roles of the two organizations, and details of our joint responsibilities with respect to market monitoring. Appropriate processes and procedures have been established, and will take on increased significance as the electricity market develops and expands.

NBSO has also been active in neighbouring jurisdictions, having intervened in proceedings before both the Nova Scotia Utilities and Review Board and the Maine Public Utilities Commission. One of the NBSO objectives, whenever appearing in other jurisdictions, is to encourage regional co-operation to obtain maximum efficiencies and economic benefit for both New Brunswick and the Maritimes Area.

Relationship between NBSO, Public Utilities Board (PUB) and NB Power Transmission



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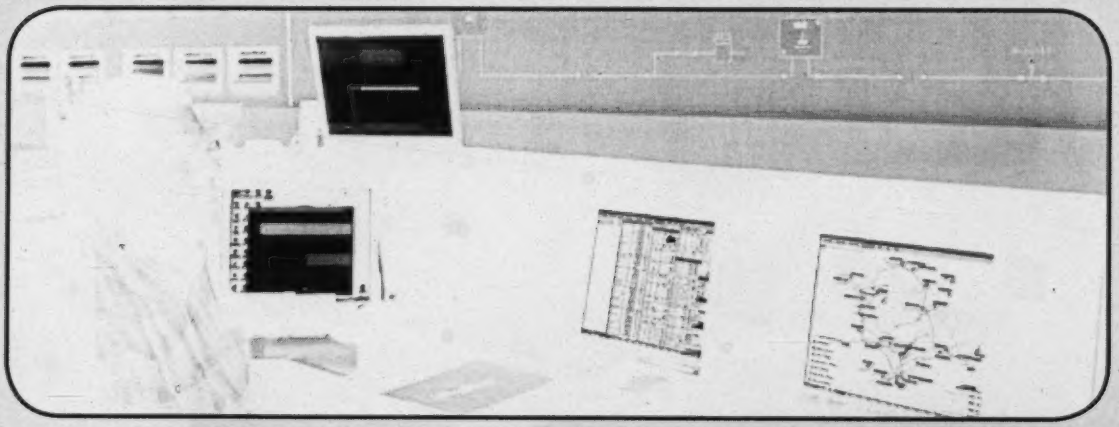

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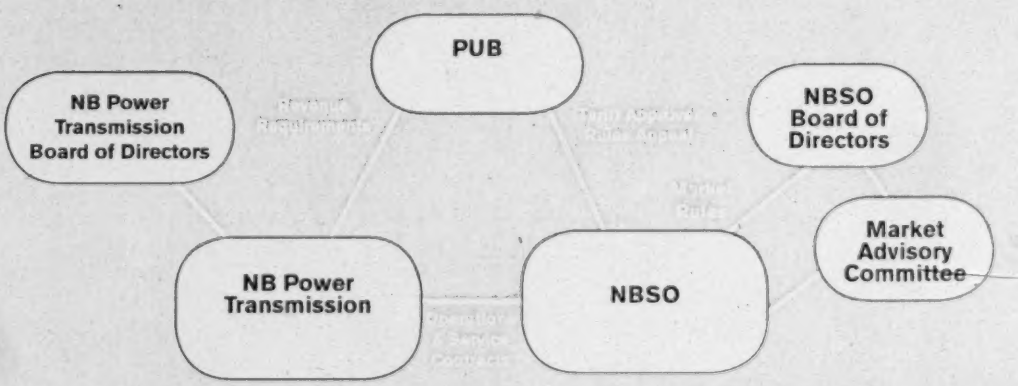


Market Development

Several changes to the Transmission Tariff and the Market Rules were implemented over the course of the year. Many were in response to feedback received from current and potential market participants with an interest in improving competition for marginal energy dispatch. The more significant of these changes are as follows:

Energy Imbalance Pricing

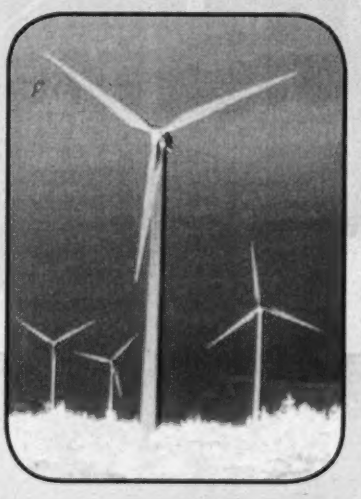
The elimination of the punitive component of energy imbalance pricing removes a barrier to additional market participation and non-utility generation. Hourly energy imbalances will now be settled at the Final Hourly Marginal Cost (FHMC), rather than at punitive rates. Market participants are less likely to suffer financially if they are unable to hold to their hourly energy schedules.

Allowing Intra-Day Changes to Dispatch Data by Market Participants

Market Participants can now revise their bids for redispatch as late as two hours prior to the dispatch hour. Previously, the day-ahead bids were final. With the new ability to revise bids within-the-day, market participants are more likely to consider the New Brunswick balancing energy market. In addition, the bids that are used to establish the FHMC on the New Brunswick system can be more responsive to changing external market conditions and to changes in supply availability and thus better reflect the real-time value of energy. This option also allows more efficient use of resources by allowing suppliers of balancing energy to do a better job of pricing their supply.

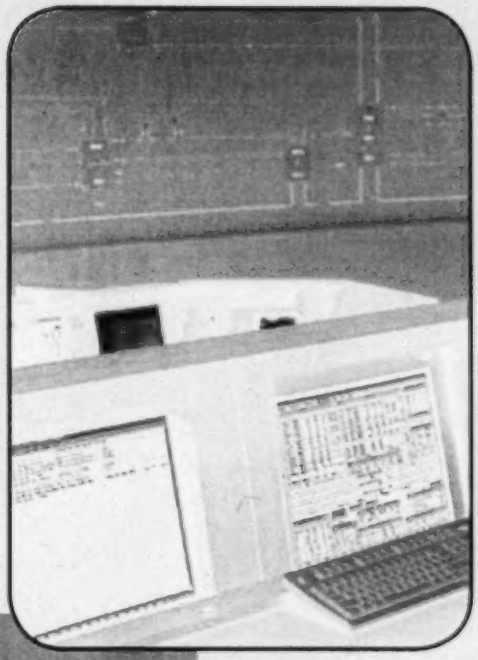
Posting of Next-Day Final Hourly Marginal Cost Indication

Rather than waiting until the end of the month, Market Participants can now get an indication of the marginal cost on the New Brunswick system by 10:00 am of the next day. This information will allow them to better gauge the financial risk associated with the possibility of being off schedule on their transactions, and also help them plan their bidding strategies with respect to the New Brunswick balancing energy market.



Approximately 100 registered participants attended the first General Information Session hosted by NBSO on April 10, 2006 in Moncton, New Brunswick. The session was designed to provide an opportunity for present and potential Market Participants, as well as interested parties, to enhance their understanding of and learn more about the New Brunswick electricity market. The session also provided a forum for the exchange of ideas and experiences among participants.

NBSO plans to conduct further information sessions on an annual basis.



Presentations were given on the following topics:

- Role of the Market Advisory Committee (Market Advisory Committee Chairperson, Jessie Davies)
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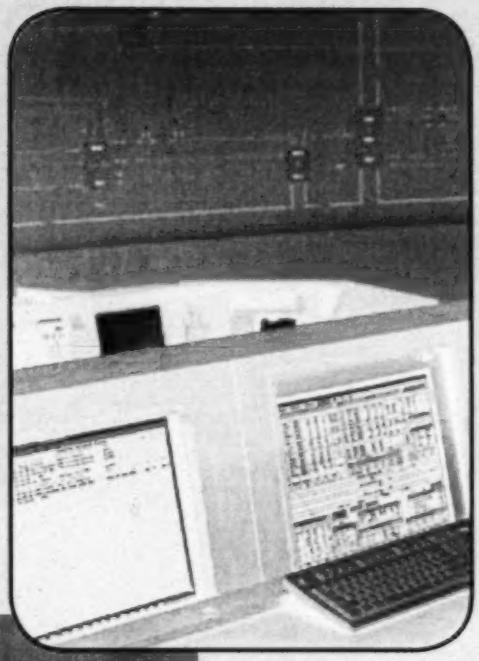

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As is the case in many parts of Canada, New Brunswick has seen a significant increase in proposed wind power projects within the last few years. Driving most of this interest in New Brunswick has been the June 2005 announcement by the Province that it intends to achieve a renewable energy target of 400 MW of renewable generation by 2016. In August 2006, NB Power announced that it intends to contract for 200 MW of wind capacity within the next three years, preferably from multiple projects with good geographic dispersion in order to mitigate the volatility of wind power fluctuations.

NBSO is responsible for conducting system impact studies for all load and generation additions including proposed wind projects, and lists both the completed and queued studies on its website (www.nbso.ca). To date, studies have been completed for approximately 1000 MW of new wind projects, and there are more than 1000 MW of proposed wind projects still in the study queue.

In August 2005, NBSO completed a Maritimes Area Wind Integration Study that looked at issues related to connecting large amounts of wind generation onto the Maritimes Area grid. This technical study looked specifically at the contribution of wind energy to reliability, the impact of wind energy on load variability, the role of hydroelectric capacity for integrating wind energy, and issues with absorbing wind energy during the spring run-off. Among the conclusions of this study were:

- The recommended capacity credit for a wind farm during a capability period should be equal to its demonstrated capacity factor for that period.
- Wind projects contribute extra variability to the net load, but this is mitigated if there are multiple wind farms with good geographic diversity between them.
- More wind capacity can be integrated into the Maritimes Area at less cost if the two balancing areas were combined into a single balancing area.
- Limited hydroelectric capacity in the Maritimes Area compared to other areas of Canada may result in proportionately less wind power in the Maritimes versus those other areas.
- Absorbing significant wind energy into the grid will be most challenging for the Maritimes Area during the spring run-off due to significantly less flexible hydroelectric capacity to accommodate the intermittency of wind power.

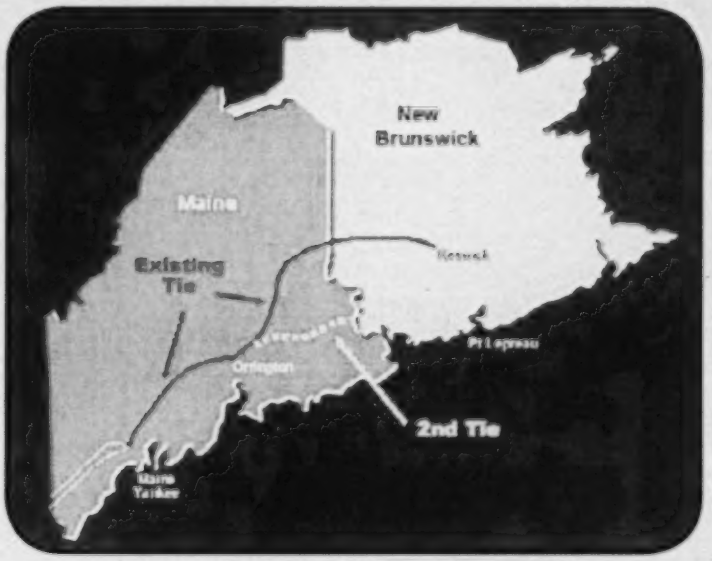
In 2006, NBSO is advancing the work of the previous wind study to look at issues related to wind forecasting accuracy, the cost impacts of wind integration on day-ahead unit commitment and ancillary services, and Market Rule and Transmission Tariff changes necessary to accommodate wind integration and to ensure that wind integration costs are born by the appropriate Market Participants. This second study is targeted to be completed in the fall of 2006.

Electric Reliability Organization

On July 20, 2006 the Federal Energy Regulatory Commission issued an order making NERC the Electric Reliability Organization (ERO) for the United States. This makes compliance with NERC mandatory and enforceable in the United States. NERC is also seeking recognition as the ERO from government authorities in Canada. NBSO is working with the New Brunswick Department of Energy and the New Brunswick Board of Commissioners of Public Utilities to sort out details for ERO implementation in New Brunswick. In its Reliability Coordinator role, NBSO ensures that the Maritimes is compliant with NERC standards, and thus will continue to benefit from the system reliability and business opportunities that the United States interconnections provide. It is expected that formal operation of the ERO structure will commence January 1, 2007.

International Power Line Project (2nd Tie)

Construction of a second 345 kV interconnection between Point Lepreau in New Brunswick and Orrington, Maine in the United States has commenced with a targeted in-service date of December 2007. When completed, the project will significantly improve market access, system reliability and operating efficiency in the region. The maximum export capability from New Brunswick to New England will be increased from 700 MW to 1000 MW, and the import capability from New England to New Brunswick is expected to be raised from 100 MW to 400 MW. Reliability of the regional system will be improved since loss of a single interconnection to New England will no longer result in the separation of the Maritimes Area and portions of Maine from the interconnected New England power system. The efficiency gains provided by the project are the result of reductions in system losses. Depending upon operating conditions their expected annual value will be in the range of $7 to $10 million.



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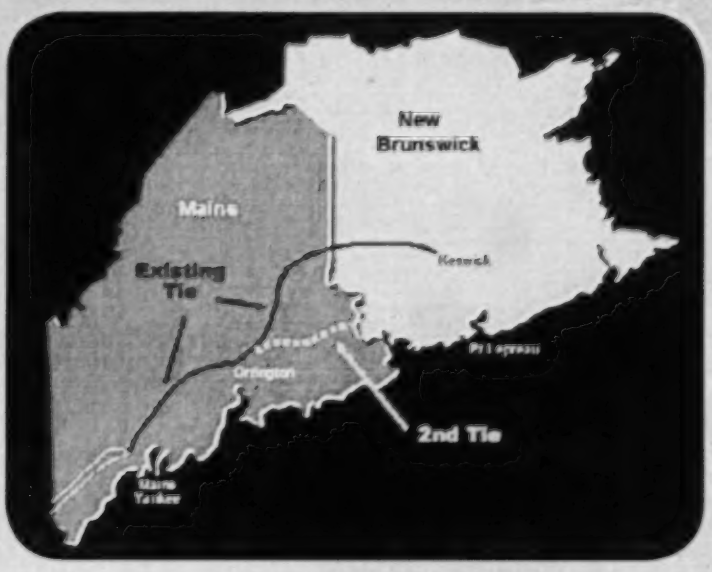

Market Enhancements

The current Market Rules and Transmission Tariff charges, terms and conditions, are viewed as the basis for traditional market transactions between most market participants. But they are not static. Evolution of the Market Rules is expected to continue, especially where needed to accommodate and encourage innovative new activities and the application of new technologies.

NBSO is working with the Market Advisory Committee to develop rules for demand response programs that can improve competitiveness in the market and enhance reliability. Flexible loads that are able to be dispatched or controlled by the system operator could be economically bid by their owners into the market and displace the need for higher priced generation. This could apply to ancillary service capacity requirements as well as hourly energy needs. Such programs would encourage installation of end-use load control technologies by distribution companies and large industry. Control of electric hot water heaters and thermal storage applications are possibilities. Opportunities would be provided for the newly created New Brunswick Energy Efficiency and Conservation Agency to partner with market participants and support technology innovation that would be beneficial to all customers. Such an arrangement strikes a balance between market-based pricing and fixed rates in keeping with the New Brunswick government's "deliberate and controlled" approach that was articulated in the White Paper Energy Policy in 2001.

There is an increasing drive towards installation of renewable generation technologies and their unique operating characteristics must be equitably accommodated. Currently wind generation is at the forefront and work will need to continue regarding the requirements for the integration of large quantities of wind generation into the New Brunswick and Maritimes systems. Toward this end, NBSO will be continuing its study initiatives with stakeholders in the Maritimes Area.

A recent study completed for the provincial Department of Energy by the Electric Power Research Institute indicates significant opportunities for tidal power in New Brunswick. These developments do not require a barrier to the flow of water, but utilize newer "in-stream" tidal technologies and may require a pilot project. Other areas of interest include distributed heat and power applications, solar power and small must-run co-generation. Considering the environmental and system diversity values that these new technologies bring, it is important that NBSO institute rules and procedures that accommodate and encourage their utilization.

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Market Advisory Committee (MAC)

The MAC is an integral part of the electricity market structure as it plays a key role in ensuring a co-ordinated, consistent and effective voice for market stakeholders. The MAC is an efficient mechanism for review of market issues and provision of recommendations to the NBSO Board of Directors.

The quality, knowledge and diversity of the committee members, many of whom have been involved in the energy sector for several years, represents a broad range of interested parties including, large industrial customers, municipal utilities, generators, transmission operators, transmission users, environmental groups and residential consumers.

The Market Advisory Committee includes representatives from a wide range of interested parties:

- NB Power Generation (Kirby O'Donnell)
- Other Generators* (Stacy Dimou, Energy Consultant)
- Marketers* (Ed Howard, WPS Energy Services)
- Transmission Customers* (Don Jessome, Emera)
- Transmitters* (Brian Scott, NB Power Transmission)
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- Environmental Interests* (Dr. Andrew Secord, St.Thomas University)
- System Operator (George Porter)

* Stakeholder group representation

Seated left to right: Ed Howard, Ron LeBlanc (incoming representative, Transmission Customers), Jessie Davies (Chair), Stacy Dimou, Eric Marr, George Porter, Barry Milton (Alternate, NB Power Transmission). Standing left to right: Brian Scott, Dan Dionne (incoming representative, Other Distributors), Andrew Booker, Kirby O'Donnell, Jacques Saint Pierre (Alternate, Large Industrials), Dr. Andrew Secord, Blair Kennedy, Rob Arnold (guest, attending for CANWEA (Canadian Wind Energy Association)

NBSO Management Team

William K. Marshall
President & CEO

Kevin Roherty
Secretary & General Counsel

Lynne West
Controller

George Porter
Director,
Market Development
& Settlement

Alden Briggs
Director,
Power System Engineering

Jane Murray
Manager, Training

Ross Stairs
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* Stakeholder group representation

Seated left to right: Ed Howard, Ron LeBlanc (incoming representative, Transmission Customers), Jessie Davies (Chair), Stacy Dimou, Eric Marr, George Porter, Barry Milton (alternate, NB Power Transmission). Standing left to right: Brian Scott, Dan Dionne (incoming representative, Other Distributors), Andrew Booker, Kirby O'Donnell, Jacques Saint Pierre (alternate, Large Industrials), Dr. Andrew Secord, Blair Kennedy, Rob Apold (guest, attending for CANWEA (Canadian Wind Energy Association)

NBSO Management Team

William K. Marshall
President & CEO

Kevin Roherty
Secretary & General Counsel

Lynne West
Controller

George Porter
Director,
Market Development
& Settlement

Alden Briggs
Director,
Power System Engineering

Jane Murray
Manager, Training

Ross Stairs
Director,
Power System Operations

Dave Daley
Director,
Infrastructure & System Support

New Brunswick System Operator

Financial Statements
March 31, 2006
(in thousands of dollars)

PricewaterhouseCoopers LLP
Chartered Accountants
300 Brunswick House
44 Chipman Hill, PO Box 789
Saint John, New Brunswick
Canada E2L 4B9
Telephone +1 (506) 632 1810
Facsimile +1 (506) 632 8997

June 23, 2006

Auditors' Report

To the Board of Directors of
New Brunswick System Operator

We have audited the balance sheet of **New Brunswick System Operator** as at March 31, 2006 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity

New Brunswick System Operator

Financial Statements
March 31, 2006
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MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The financial statements of the New Brunswick System Operator (NBSO) were prepared by management, in accordance with Canadian generally accepted accounting principles which involve the use of significant accounting judgments and estimates in selecting and applying appropriate accounting principles.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains systems of internal controls necessary to provide reasonable assurance that the accounting records are reliable, and that the corporation's assets are properly safeguarded. Internal Audit conducts reviews to ensure that the corporation's internal controls and procedures are adequate, consistent, and applied uniformly.

The independent audit firm of PricewaterhouseCoopers LLP, Chartered Accountants, has audited and reported on the financial statements. Their opinion is based on their audit conducted by them in accordance with Canadian generally accepted auditing standards to obtain reasonable assurance that the financial statements are free of material misstatement.

The Board of Directors is responsible for evaluating management in the performance of their financial reporting responsibilities, and has approved these financial statements. The Board of Directors reviews and recommends approval of the financial statements and meets periodically with management, the independent auditors and the internal auditor, concerning internal controls and all other matters relating to financial reporting.

William Marshall,
President and Chief Executive Office

Curtis Howe,
Chairman

New Brunswick System Operator

Balance Sheet

As at March 31, 2006

(in thousands of dollars)

	Year ended March 31, 2006 $	Six months ended March 31, 2005 $
Assets		
Current assets		
Cash	723	127
Accounts receivable	9,884	9,328
Prepaid expenses	89	78
	10,696	9,533
Property, plant and equipment (note 3)	2,804	–
	13,500	9,533
Liabilities		
Current liabilities		
Short-term indebtedness (note 4)	–	400
Accounts payable and accrued liabilities	9,973	9,221
Deferred regulatory liabilities (note 5)	610	–
Current portion of capital lease obligations (note 6)	65	–
	10,648	9,621
Accrued benefit liability (note 7)	113	26
Obligations under capital lease, net of current portion (note 6)	2,739	–
	13,500	9,647
Deficit	–	(114)
	13,500	9,533

Approved by *the Board of Directors*

Chairman

Director

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William Marshall,
President and Chief Executive Office

Curtis Howe,
Chairman

New Brunswick System Operator

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(in thousands of dollars)

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Approved by *the Board of Directors*

Chairman

Director

New Brunswick System Operator

Statement of Operations and Deficit

For the year ended March 31, 2006

(in thousands of dollars)

	Year ended March 31, 2006 $	Six months ended March 31, 2005 $
Revenues		
Transmission:		
Point-to-point tariff	26,350	10,631
Network tariff	50,315	29,792
Power factor penalty	889	319
Pre-tariff wheeling contract	348	226
	77,902	40,968
Ancillary services	12,535	5,687
Miscellaneous	634	15
	91,071	46,670
Expenses		
Transmission	77,902	40,968
Ancillary services	5,905	3,511
Operation, maintenance and administration	6,243	2,306
Amortization	55	–
	90,105	46,785
Other income (expense)		
Interest income	7	3
Interest expense on short-term debt	(7)	(2)
Interest expense on capital lease	(242)	–
	(242)	1
Deferral of Regulatory Liabilities	(610)	–
Net profit (loss) for the year	114	(114)
Deficit – Beginning of year	(114)	–
Deficit – End of year	–	(114)

New Brunswick System Operator

Statement of Cash Flows

For the year ended March 31, 2006

(in thousands of dollars)

	Year ended March 31, 2006 $	Six months ended March 31, 2005 $
Cash provided by (used in)		
Operating activities		
Net profit (loss) for the period	114	(114)
Items not affecting cash		
Amortization	55	–
Net change in non-cash working capital items	795	(185)
Net change in accrued benefit liability	87	26
	1,051	(273)
Financing activities		
Increase (decrease) in short-term indebtedness	(400)	400
Payments under capital lease	(55)	–
	(455)	400
Net change in cash during the year	596	127
Cash – Beginning of year	127	–
Cash – End of year	723	127
Cash flows from operating activities include		
Interest paid	7	2
Interest received	7	3

New Brunswick System Operator

Statement of Operations and Deficit

For the year ended March 31, 2006

(in thousands of dollars)

	Year ended March 31, 2006 $	Six months ended March 31, 2005 $
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Interest received	7	3

(in thousands of dollars)

1 Nature of operations

The Electricity Act, 2003 (New Brunswick) received Royal Assent on April 11, 2003 and was proclaimed on October 1, 2004. The Act provides for a competitive market for the sale of electricity, in addition to the regulation of the monopoly electricity delivery system in the Province of New Brunswick.

The Electricity Act created the New Brunswick System Operator (NBSO) as an independent, not-for-profit entity responsible for directing the operation of the transmission system and administering the Open Access Transmission Tariff (OATT). The Public Utilities Board (PUB) set the original tariff rate effective September 30, 2003. NBSO took over the management of the tariff on October 1, 2004 and applied to the PUB in January 2005 for changes to the OATT which were approved effective May 1, 2005.

The Electricity Act legally separated NBSO from the New Brunswick Power Transmission (NBPT) which owns the transmissions assets. NBSO has its own independent Board of Directors. The NBSO operation functions are carried out by the employees located at NBPT's Energy Control Centre, 77 Canada Street, Fredericton, NB. Some are direct employees of NBSO (5) while the remainder (approximately 40) are seconded under contract from NBPT.

On October 1, 2005, NBSO became the Reliability Coordinator for the Maritime area.

Income arising from the operating of NBSO is exempt from federal and provincial income taxes.

2 Significant accounting policies

The accompanying financial statements have been prepared in accordance with the Canadian generally accepted accounting principles and reflect the following significant accounting policies.

Regulation

NBSO is subject to regulation by the PUB. The regulations cover such matters as tariff rates and accounting policies. NBSO's accounting policies conform to generally accepted accounting principles in the electricity transmission industry in Canada and also reflect the policies prescribed by the PUB. Costs and credits are deferred on the balance sheet as regulatory assets and liabilities for amounts which would otherwise be included in earnings, when authorized to do so.

Revenue recognition

Monthly settlements of market participants' energy imbalance and residual monthly costs are not reflected in NBSO's Statement of Operations since they do not represent revenues or expenses of NBSO as NBSO merely acts as an intermediary in the settlement process. In this role, NBSO receives and disburses funds to/from market participants in the month following the month transactions occurred. See note 10 for a summary of transactional volumes occurring during the year.

(in thousands of dollars)

2 **Significant accounting policies** (continued)

Revenue recognition

NBSO's approved tariff, the Open Access Transmission Tariff (OATT) allows recovery of NBSO's operating expenses through Schedule 1 services provided to market participants. The revenue from Schedule 1 is earned monthly, weekly, daily or hourly dependent upon transmission reservations. Market participants are then billed for such services in the subsequent month.

Transactions from bilateral contracts between market participants are not included as transactions of NBSO.

Ancillary services and other miscellaneous revenues are recognized as the related services are provided.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated amortization. Amortization has been computed at rates equal to the principal lease repayments using the effective interest method, which is sufficient to amortize the cost of the property, plant and equipment over their estimated useful lives as follows:

Buildings	32 years
Equipment	7 years

Foreign exchange transactions

Foreign currency revenues and expenses are translated into Canadian dollars at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at the balance sheet date. The resulting foreign currency exchange gains and losses are included in the determination of net income for the year.

Cash

Cash consists of cash and short-term deposits with original maturities of three months or less held with banks.

Employee bene fit plans

Benefit obligations for defined benefit post-retirement plans are determined by independent actuaries using the project benefit method prorated on service and management's best estimate of salary escalation and retirement ages of employees.

(in thousands of dollars)

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(in thousands of dollars)

2 Significant accounting policies (continued)

Revenue recognition

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Employee benefit plans

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(in thousands of dollars)

2 Significant accounting policies (continued)

Employee benefit plans

The benefits charge or credit recognized consists of:

- the aggregate of the actuarially computed cost of benefits provided in respect of the current period's service;
- imputed interest on the accrued benefit obligation;
- the amortization of past service costs from plan amendments, over the average remaining service period of employees active at the date of amendment; and
- the amortization of experience gains or losses, in excess of 10% of the accrued benefit plan obligation at the beginning of the period over the average remaining service period of employees.

Defined contribution plan accounting is applied to multi-employer defined benefit pension plans for which the corporation has insufficient information to apply defined benefit plan accounting. The benefit cost is the corporation's required contributions to the plan.

Management estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

Recently adopted accounting abstract

Effective April 1, 2005, NBSO adopted the following new accounting abstract:

Determining whether an arrangement contains a lease
EIC 150 "Determining whether an arrangement contains a lease" which became effective for NBSO this year provides guidance to enterprises that engage in arrangements that do not take the legal form of a lease, but that convey the right to use a tangible asset in return for a payment (or a series of payments).

NBSO has an arrangement with NBPT in which it leases the Energy Control Centre, which has been treated as a capital lease in accordance with the recommendations of this abstract. Notes 3 and 6 of the financial statements describe this transaction.

(in thousands of dollars)

3 Property, plant and equipment

	Cost $	Accumulated amortization $	2006 Net $	2005 Net $
Building	2,414	12	2,402	–
Equipment	445	43	402	–
	2,859	55	2,804	–

The above assets represent the assets of the Energy Control Centre leased from NBPT (note 6).

4 Short-term indebtedness

NBSO has a $1,000 revolving credit facility with the Province of New Brunswick which has no expiry date. NBSO can draw down amounts under this facility for periods of no more than 12 months. The proceeds are to be used for working capital purposes. Interest is charged on amounts borrowed under this facility based on the Province of New Brunswick's short-term borrowing rate that is based on the Government of Canada Treasury Bills. The borrowing under this facility was repaid during the current year.

5 Deferred regulatory liabilities

The following regulatory liabilities were included in the "Deferred Regulatory Liabilities" line on the balance sheet:

	Unforeseen future events $	Surplus (Deficit) $	Total $
March 31, 2005	–	–	–
Deferrals in year	300	310	610
March 31, 2006	300	310	610

During the year, the PUB approved the retention by NBSO of $300 out of the current year's surplus to cover unforeseen future events. As a result, this amount of the surplus has been deferred in accordance with the PUB's decision. Any expenditures to be applied against this reserve must be approved by the PUB.

In addition, the PUB decided that it is not appropriate for NBSO as a not-for-profit entity to have a surplus or a deficit. As a result, the current year's surplus, net of the reserve for unforeseen future events and the deficit brought forward has been deferred. The method and period over which to redistribute this net surplus has not yet been determined by the PUB.

(in thousands of dollars)

2 Significant accounting policies (continued)

Employee benefit plans

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(in thousands of dollars)

6 Obligations under capital lease

Effective April 30, 2005, the company entered into an agreement with NBPT under which the company became responsible for the full cost of the Energy Control Centre. This arrangement has been accounted for as a capital lease in accordance with EIC 150. At the commencement of this arrangement, the assets of the ECC amounted to $2,859. Interest is being charged at 9.32% and monthly payments of principal and interest amount to $19 for the building and $7 for the equipment.

The minimum annual lease payments under this arrangement are as follows:

	$
Year ending March 31, 2007	324
2008	324
2009	324
2010	324
2011	324
Thereafter	6,278
	7,898
Less: imputed interest	5,094
	2,804
Due in less than one year	65
Due after one year	2,739
	2,804

7 Employee future benefits

NBSO has the following plan providing pension and other post employment benefits to its employees.

Pensions

NBSO's employees participate in a multi-employer contributory defined benefit pension plan, administered by the Province of New Brunswick under the Public Service Superannuation Act ("PSSA"). The plan provides pensions to employees of the Provincial Government and certain Crown corporations and agencies based on length of service and highest successive five-year average salary.

The plan was 92.1% funded as of April 1, 2005, the date of the most recent external valuation of the plan. The Province has advised participating corporations that the unfunded liability is being funded through annual escalating payments. Payments by NBSO to the plan during the year to March 31, 2006 were $67 (2005 - $38), and future payments, if required, will increase by the annual growth in CPI plus 2%. Future actuarial valuations may change the funding requirement.

(in thousands of dollars)

7 **Employee future benefits** (continued)

Executive Supplement

NBSO also has an unfunded, non-contributory pension plan that provides supplemental pension benefits over and above those provided by the PSSA to certain designated executives. In addition, executives who retire after age 60 are entitled to an extension of their group benefits to age 65 at NBSO's expense.

Retirement allowances

The retirement allowance program is an unfunded non-contributory plan that provides a lump-sum payment upon retirement equal to one week of pay for each full year of employment to a maximum of 26 weeks of pay for employees and two weeks of pay for each full year of employment to a maximum of 52 weeks of pay for designated executives. Previous years of employment with New Brunswick Power prior to the formation of NBSO qualify toward the participants entitlements under this plan.

The net benefit cost recognized during the year to March 31, 2006 in relation to the executive supplement and retirement allowance plans was $87 (2005 - $26). No payments were made to beneficiaries of these plans during the year (2005 - Snil).

Information about NBSO's executive supplement and retirement allowance plans as at March 31, 2006 (measurement date) based on extrapolations of actuarial valuations prepared as at April 1, 2005 for accounting purposes are as follows:

	2006 $	2005 $
Accrued benefit obligation	294	180
Unamortized past service costs and actuarial losses	(181)	(154)
Accrued benefit liability	113	26

(in thousands of dollars)

6 Obligations under capital lease

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7 Employee future benefits (continued)

Executive Supplement

NBSO also has an unfunded, non-contributory pension plan that provides supplemental pension benefits over and above those provided by the PSSA to certain designated executives. In addition, executives who retire after age 60 are entitled to an extension of their group benefits to age 65 at NBSO's expense.

Retirement allowances

The retirement allowance program is an unfunded non-contributory plan that provides a lump-sum payment upon retirement equal to one week of pay for each full year of employment to a maximum of 26 weeks of pay for employees and two weeks of pay for each full year of employment to a maximum of 52 weeks of pay for designated executives. Previous years of employment with New Brunswick Power prior to the formation of NBSO qualify toward the participants entitlements under this plan.

The net benefit cost recognized during the year to March 31, 2006 in relation to the executive supplement and retirement allowance plans was $87 (2005 - $26). No payments were made to beneficiaries of these plans during the year (2005 - $nil).

Information about NBSO's executive supplement and retirement allowance plans as at March 31, 2006 (measurement date) based on extrapolations of actuarial valuations prepared as at April 1, 2005 for accounting purposes are as follows:

	2006 $	2005 $
Accrued benefit obligation	294	180
Unamortized past service costs and actuarial losses	(181)	(154)
Accrued benefit liability	113	26

(in thousands of dollars)

7 Employee future benefits (continued)

The significant actuarial assumptions adopted in measuring NBSO's accrued benefit obligation and net benefit cost for the executive supplement and retirement allowance plans are as follows:

	2006	2005
Discount rate at end of year used to determine the accrued benefit obligation	5.25%	5.75%
Discount rate at beginning of year used to determine the net benefit cost	5.75%	6.00%
Rate of compensation increase at end of year to determine the accrued benefit obligation	2.50%	2.50%
Rate of compensation increase at beginning of year used to determine the net benefit cost	2.50%	2.50%

An 8% and 5% annual rate of increase in per capita costs of covered medical care and dental benefits respectively has been assumed for 2007. Medical cost inflation is assumed to remain at this level for four years and then decrease to 6% per annum thereafter.

8 Financial instruments

Fair value

NBSO's financial statements include cash, accounts receivable and payable and short-term indebtedness. Due to the short-term maturity of cash, accounts receivable and payable the carrying value of these instruments are reasonable estimates of their fair value. The carrying value of the short-term indebtedness is estimated to be its fair value because of its floating rate nature.

Credit risk

Financial instruments which potentially subject the corporation to concentrations of credit risk primarily consist of accounts receivable billings due from market participants, the majority of which relates to 3 customers, namely New Brunswick Power Generation, New Brunswick Power Distribution and Customer Service, Nova Scotia Power Inc., for $9,692 (2005 - $8,797). No allowance has been provided for accounts receivable at March 31, 2006 as management considers all accounts receivable to be probable of collection. NBSO's tariffs establish specific periods for the adjustment of settlement invoices as originally billed and for challenges to amounts billed for a particular service month.

Subsequent invoices issued during the settlement adjustment period "true up" amounts previously billed. After all true up invoices are issued during the settlement adjustment period, market participants may challenge the amounts billed for a particular service month. If NBSO agrees with the provisions of the challenge, a final invoice is issued for that service month. As a result, NBSO is exposed to credit risk until all settlement adjustments and final invoices for each service month are finalized and liquidated. However, NBSO is allowed to recover bad debt losses from remaining market participants in future billings.

(in thousands of dollars)

8 Financial instruments (continued)

Credit risk

As per OATT, Section 7.1, each invoice shall be subject to adjustment for any errors in calculations, meter readings, estimating or otherwise up to twelve months after the date of original issuance. These invoices may be challenged by the market participants up to 10 days after the date of original issuance.

Interest rate risk

NBSO is exposed to interest rate risk as future changes in the prevailing level of interest rates affects the cash flows associated with its cash and short-term indebtedness (note 4). The corporation has not entered into any financial instrument contracts to hedge this interest rate exposure.

Currency risk

NBSO is subject to minimal foreign exchange risk as less than 1% of its revenues and less than 0.5% of its expenses are denominated in foreign currencies. NBSO has not entered into any foreign exchange contracts to minimize the effects of foreign exchange fluctuations on its operations or theses financial statements.

9 Economic dependence on related parties

NBSO has entered into the following agreements and contracts with the NB Power group of companies, which are related through common ownership by the Province of New Brunswick.

Operating agreement with transmitters

In order to be able to comply with the provisions of the Electricity Act and the Market rules, NBSO has entered into agreements with transmitters to direct the operation of the Transmission system, direct the operation and maintain the reliability of the System Operator controlled grid and maintain the reliability of the integrated electricity system. Tariff charges collected and remitted to NBPT for the year to March 31, 2006 amounted to $77,763 (2005 - $40,923).

Agreement for the secondment of employees from NBPT

In order for NBSO to fulfill the tasks and functions necessary to meet its responsibilities under the Electricity Act, designated employees of NBPT who work at its Energy Control Center are seconded to NBSO. The original agreement was amended effective April 1, 2005. The term of the new agreement is for a three year period ending March 31, 2008. Unless written notice of termination is given by either party on or before April 1, 2007, the agreement is automatically renewed for a five year period. Thereafter, unless written notice is given by the commencement of the fifth year of the renewal period, the agreement is renewed for a further five years, to a maximum of five renewals. Under the terms of the new agreement NBSO is responsible for the full cost of the Energy Control Centre and its employees. For the year ended April 1, 2005 to March 31, 2006, NBSO remitted $4,930 (2005 - $1,720) to NBPT.

(in thousands of dollars)

7 Employee future benefits (continued)

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	2006	2005
Discount rate at end of year used to determine the accrued benefit obligation	5.25%	5.75%
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(in thousands of dollars)

9 Economic dependence on related parties (continued)

Services agreement with NBPT

NBPT agrees to provide certain services (e.g. Human resources, payroll, benefits administration, business information systems, etc.) for the direct employees of NBSO plus the members of NBSO Board of Directors. The original contract was amended effective April 1, 2005. The term of the original agreement was for the period October 1, 2004 to March 31, 2005. The term of the new agreement is for two years ending March 31, 2007. Unless written notification of termination is given by either party on or before September 30, 2006 the agreement will automatically renew for a one year period. In subsequent years, renewal will be automatic unless written notice of termination is given on or before September 30 of the previous year. NBPT charged NBSO $89 (2005 - $24) for such services during the year ended to March 31, 2006.

Ancillary services contracts with NB Power Generation, NB Power Nuclear, and NB Power Colson Cove

The market rules require that NBSO obtain ancillary services under contract from Market Participants for registered facilities. The contract terms are tied to the estimated shutdown dates of the contracted facilities. Amounts paid to these parties during the year ended March 31, 2006 for such contracts amounted to $5,905 (2005 - $3,511).

Service agreement for Network Integration Transmission Service

NBSO agrees to provide and NB Power Distribution and Customer Service agrees to take and pay for Network Integration Service in accordance with the provisions of Part III of the Tariff and this agreement. Service under this agreement can be terminated by either party, upon the expiration of 12 months written notice to the other party. Revenues under this agreement amounted to $50,315 (2005 - $29,747) for the year ended March 31, 2006.

In addition to the above agreements, transmission tariff revenues include $24,506 (2005 - $10,022) charged to the NB Power group of companies, as market participants.

At March 31, 2006, accounts receivable included $9,334 (2005 - $8,842) and accounts payable and accrued liabilities included $8,289 (2005 - $7,909) due from/to the NB Power group of companies respectively.

10 Energy imbalance and residual monthly costs (unaudited)

The total energy imbalance and residual monthly costs that represent the settlement of the transactional volume of energy and energy related products in NBSO's market during the year ended March 31, 2006 amounted to $27,767 (2005 - $6,109). The above amounts include $26,107 (2005 - $7,070) charged to and $27,451 (2005 - $7,118) received from the NB Power group of companies.

(in thousands of dollars)

10 Energy imbalance and residual monthly costs (unaudited) (continued)

During the year, as a result of a complaint received from a market participant regarding the method of settling energy imbalances and residential monthly costs prior to the PUB's approval of the mechanism used (that took effect May 1, 2005, the PUB ordered NBSO to recollect the $7,829 redistributed during the period October 1, 2004 to April 30, 2005 and redistribute these funds using an approved method. No amounts have yet been recollected or redistributed as the method to do this has not yet been determined by the PUB.

(in thousands of dollars)

9 Economic dependence on related parties (continued)

Services agreement with NBPT

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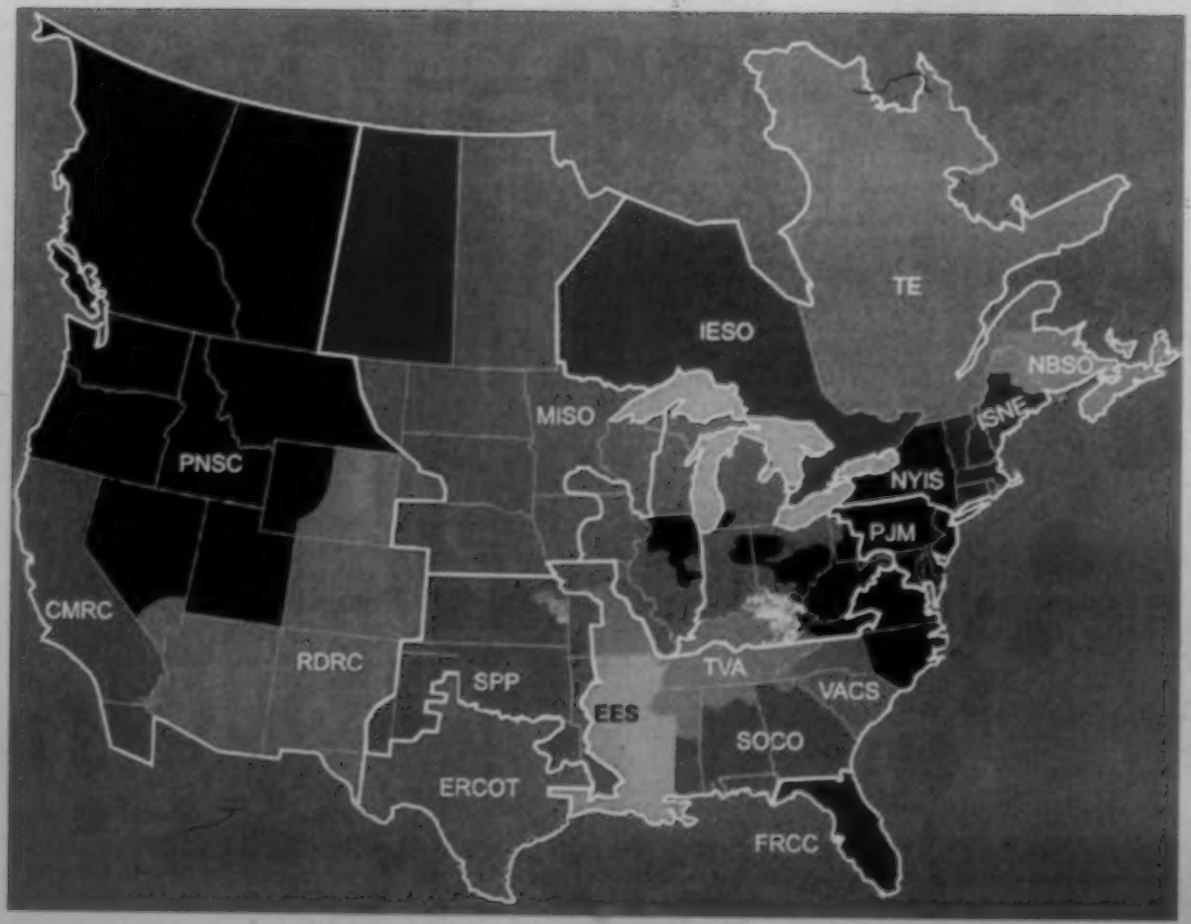
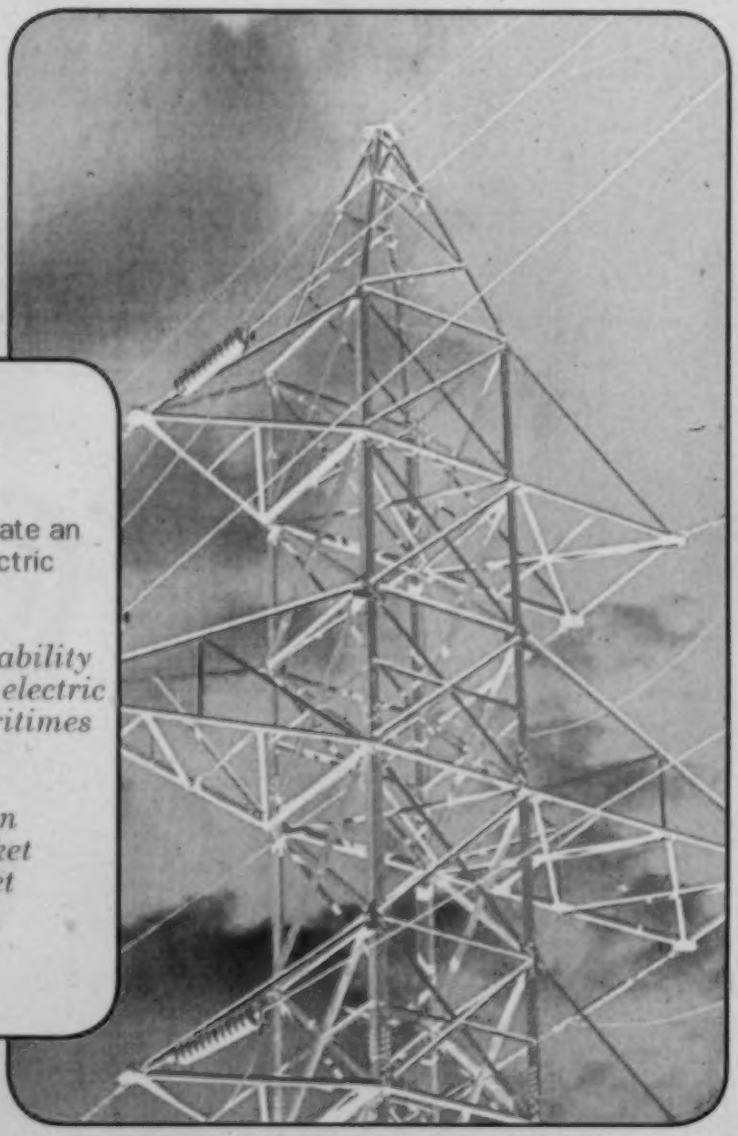
NERC Reliability Coordinators





Mission:

To plan, direct and operate an effective integrated electric power system by:

- *maintaining reliability and adequacy of electric power to the Maritimes Area*
- *achieving an open competitive market that optimizes net economic benefit*

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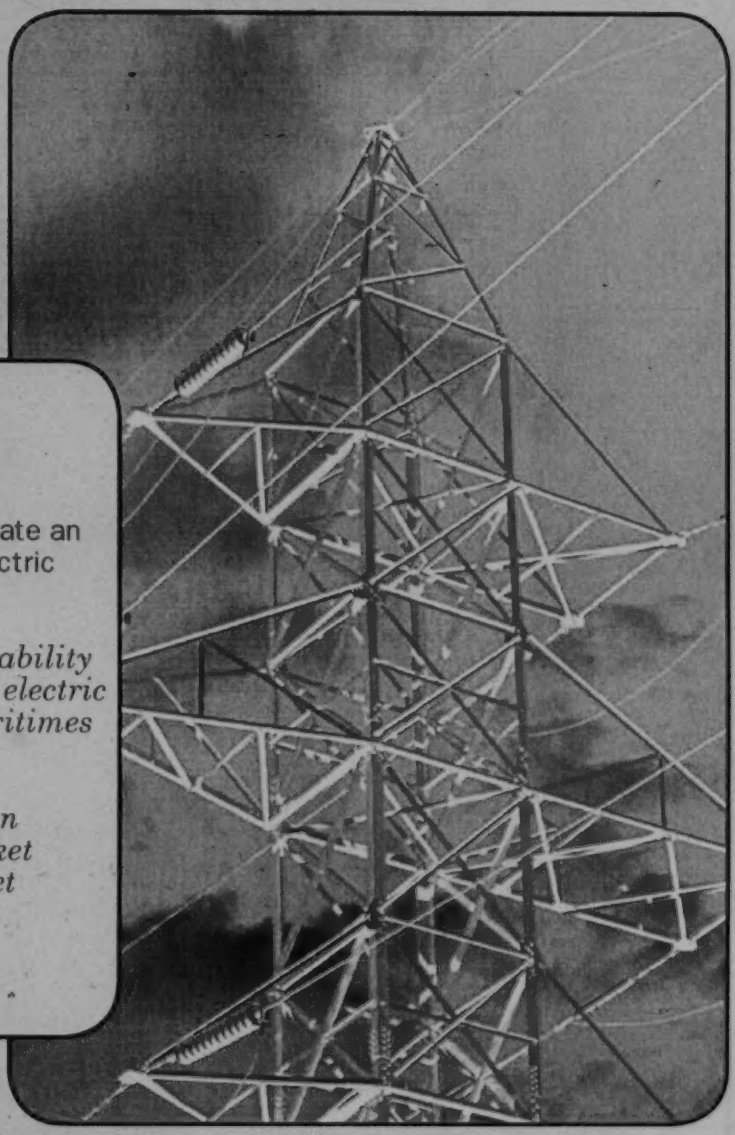

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NBSO
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